

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

York County, which was originally named Charles River County, was one of Virginia's eight original "shires" formed in 1634. It was renamed nine years later in 1643 when the river that determines the County's character was also given the name of the then Duke of York. York County has played a major role in the development of this nation. Most importantly, it was the location of the culminating battle of the Revolutionary War and the subsequent surrender of Lord Cornwallis and his British army on October 19, 1781.

The County of York, Virginia (the County) is organized under the County Executive form of government (as defined under Virginia Law). The governing body of the County is the Board of Supervisors that establishes policies for the administration of the County. The Board of Supervisors comprises five members: one member from each of five districts, elected for a four-year term by the voters of the district in which the member resides. The Board of Supervisors appoints a County Executive (County Administrator) to act as the administrative head of the County.

The financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. The County's significant accounting and reporting policies are described below.

A. The Reporting Entity

The County's financial reporting entity is defined and its financial statements are presented in accordance with GASB Statement No.14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement defines the distinction between the County as a primary government and its related entities. The financial reporting entity consists of the primary government and its discretely presented component units, which are legally, separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. The primary government may also be financially accountable if the component unit is fiscally dependent on the primary government regardless of whether the component unit has a separately elected governing board. As such, the York County School Division (the School Board) and the Industrial Development Authority of York County (IDA) are reported as separate and discretely presented component units in the County's reporting entity. The primary government is hereafter referred to as the "County" and the reporting entity, which includes the County and its component units, is hereafter referred to as the "Reporting Entity." As required by GAAP, the accompanying basic financial statements include all activities of the County. The component unit columns in the basic financial statements include the financial data of the County's two discretely presented component units.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the primary government. These component units are fiscally dependent on the County and provide services primarily to the citizens of the County. All of the component units have a June 30 year-end. A description of the discretely presented component units follows:

The **York County School Division (the School Board)** is responsible for elementary and secondary education within the County. Since January 1, 1996, the citizens of the County have elected the members of the School Board. The School Board is fiscally dependent upon the County because the Board of Supervisors approves the School Board's annual budget, levies the necessary taxes to finance the School Board's operations and approves the borrowing of money and the issuance of bonds. Separate audited financial statements are available from the School Board at 302 Dare Road, Yorktown, Virginia, 23692.

The **Industrial Development Authority of York County (IDA)** was established under the Industrial Development and Revenue Bond Act - *Code of Virginia*. A separate board appointed by the Board of Supervisors governs the IDA. The IDA is fiscally dependent upon the County because substantially all of its income is derived from an appropriation from the County. The IDA has the responsibility to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or to remain in the County. Separate audited financial statements are available from the IDA at P.O. Box 612, Yorktown, Virginia, 23690.

B. Joint Venture Government Organizations

The County does not include in the basic financial statements certain authorities created as separate governments under the laws of the Commonwealth of Virginia. These authorities are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the County although the County Board of Supervisors appoints certain members of their governing bodies. While the County may have some reversionary interest in the assets of these entities in the event they are dissolved, the nature and extent of that interest would be subject to negotiation at the time of dissolution. The County does not include these entities as component units because they do not meet the criteria as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The **Virginia Peninsulas Public Service Authority (VPPSA)** was established under the Virginia Water and Sewer Authorities Act - *Code of Virginia*. A separate ten-member board of which the County appoints one representative governs VPPSA. VPPSA was formed for the purpose of developing regional refuse collection, waste reduction and disposal alternatives with the ultimate goal of acquiring, financing, constructing and/or operating and maintaining a residential, commercial and industrial garbage and refuse collection and disposal system or systems. VPPSA is fiscally independent of the County because substantially all of its income is generated through the collection of user fees. Separate audited financial statements are available from VPPSA at 300 McLaws Circle, Suite 200, Williamsburg, Virginia 23185.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The **Virginia Peninsula Regional Jail Authority (Jail Authority)** was created pursuant to Article 3.1, Chapter 3, Title 53.1 of the *Code of Virginia* to finance, acquire, construct, equip, maintain and operate a regional jail. A separate seven-member board of which the County Sheriff serves as a member and the County appoints one representative governs the Jail Authority. The Jail Authority is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs, a portion of salaries and benefits of certain regional jail employees and a per diem charge for all prisoners housed at the jail. Separate audited financial statements are available from the Jail Authority, c/o the County of James City at P. O. Box 8784, Williamsburg, Virginia 23187-8784.

The **Middle Peninsula Juvenile Detention Commission (the Commission)** was created to enhance the region for the protection of the citizens by the construction, equipping, maintenance and operation of a new juvenile detention facility serving the eighteen member jurisdictions of which the Director of Community Services serves as the County's representative on the board. The Commission is fiscally independent of the County because substantially all of its income will be generated from per diem payments from the member jurisdictions and reimbursements from the Commonwealth of Virginia for a portion of the capital costs. Separate audited financial statements are available from the Commission, c/o the County of James City at P. O. Box 8784, Williamsburg, Virginia 23187-8784.

C. Government-wide and Fund Financial Statements

The basic financial statements are composed of both government-wide and fund financial statements. The government-wide statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the County and its component units. Generally, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges for services. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses of a function and program revenues. Direct expenses are those that are specifically associated with a specific function or segment. Program revenues include a) fees, fines and charges paid by the recipients of goods or services offered by the function or segment and b) grants and contributions that are restricted to meet the operations or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenue from the use of money and property and from intergovernmental reimbursement grants is recorded as earned. Other revenues are considered available to be used to pay liabilities of the current period if they are collectible within the current period or within 45 days thereafter. The primary revenues susceptible to accrual include property taxes, sales taxes and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures are generally recorded when the related fund liability is incurred. Debt service expenditures, as well as compensated absences and claims and judgments, are recorded when payment is due.

The County reports the following major governmental funds:

General Fund: The General Fund is the County's primary operating fund. It is used to account for all revenue sources and expenditures not required to be accounted for in other funds.

Debt Service - Fire and Rescue Fund: The Fire and Rescue Fund is used to account for the receipt and payment of bonds and loans issued for fire and rescue equipment and facilities.

Capital Projects - County Capital Fund: The County Capital Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The County reports the following nonmajor governmental funds:

Special Revenue Funds: The Children's Services/Head Start, Virginia Public Assistance and Law Library Funds are used to account for the proceeds of federal, state and local sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds: The Public Facilities and Education Debt Redemption Funds are used to account for the receipt and payment of bonds and loans issued for the construction and maintenance of County facilities and for the construction and maintenance of educational facilities.

Yorktown Capital Improvements Fund: The Yorktown Capital Improvements Fund is used to account for financial resources to be used for the acquisition or construction in the historical Yorktown area.

The County reports the following major enterprise funds:

Sanitary District No. 2 Fund: This fund accounts for the property, plant and equipment as of January 1, 1992 of the Sanitary District No. 2 utility systems.

Solid Waste Fund: This fund accounts for the operations of the County's solid waste disposal system.

Sewer Utility Fund: This fund accounts for the operations of the County's sewer utility systems.

Yorktown Revitalization Fund: This fund accounts for the revitalization project in Yorktown.

The County reports the following nonmajor enterprise funds:

York Sanitary District Fund: This fund accounts for the property, plant and equipment as of January 1, 1992 of the Sanitary District No. 1 utility systems.

Water Enterprise Fund: This fund accounts for the property, plant and equipment as of January 1, 1992 of the upper County utility systems.

Water Utility Fund: This fund accounts for operations of the County's water utility systems.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The County reports the following additional fund types:

Internal Service Fund: The Vehicle Maintenance Fund accounts for the operation of the vehicle maintenance and replacement services that are provided to County departments on a cost reimbursement basis.

Agency Funds: These funds are custodial in nature (assets and liabilities) and do not involve measurement of results of operations.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting" (Statement No. 20), proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor Accounting Practices Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, provided those standards do not conflict with GASB. Under paragraph 7 of Statement No. 20, the County has elected not to apply FASB pronouncements issued after November 30, 1989.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's Sewer Utility and various other functions of the government; elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted on an as needed basis.

E. Property Taxes

The two major sources of property taxes are described below:

Real Estate

The County levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of January 1 on the estimated market value of the property. All real estate property is assessed biennially.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Real estate taxes are billed in semi-annual installments due June 5 and December 5. Liens are placed on the property on the date real estate taxes are delinquent, June 6 and December 6, and must be satisfied prior to the sale or transfer of the property. Real estate taxes reported as revenue are for the assessment due December 5, 2003 and June 5, 2004, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for calendar years 2003 and 2004 was \$.86 and \$.8175 per \$100 of assessed value, respectively.

Personal Property

The County levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of January 1. Personal property taxes are billed in equal semi-annual installments due June 5 and December 5. Personal property taxes do not create a lien on property. The personal property taxes reported as revenue are for the levies due December 5, 2003, and June 5, 2004, less an allowance for uncollectible amounts and taxes not collected within 45 days after year-end. The tax rate for calendar years 2003 and 2004 was \$4.00 per \$100 of assessed value. The County's property tax collection records show that 95.52% of the property taxes due for the current tax year were collected.

F. Allowance for Uncollectible Amounts

Provision for uncollectible property taxes is based upon a historical percentage of accounts written off applied to the total levies of all years carried in taxes receivable and, in certain cases, specific account analysis. Provision for uncollectible solid waste, water and sewer service bills is based upon a historical analysis of uncollected accounts and, in certain cases, specific account analysis.

G. Cash and Temporary Investments

The County utilizes the pooled cash investment method. Income from the investment of pooled cash is allocated to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments. See Note 2 for description of cash and temporary investment policies. Investments are stated at fair value.

H. Inventories

Inventories consist of materials and supplies held for future consumption and are stated using the first-in, first-out method. Inventory is accounted for under the purchase method.

I. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Capital Assets

Capital assets include land, land improvements, buildings and improvements, infrastructure, equipment, vehicles and historical artwork. Infrastructure that meets the County's capitalization threshold, acquired prior to the implementation of GASB Statement No. 34 has been reported. Land, land improvements, infrastructure, equipment, vehicles and historic artwork that individually cost \$5,000 or more and buildings and improvements that individually cost \$30,000 or more and with useful lives greater than two years are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if constructed or purchased. Donated capital assets are recorded at fair market value at the date of donation. Capital assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	15 - 20
Buildings and improvements	10 - 50
Infrastructure	10 - 50
Equipment	3 - 20
Vehicles	3 - 20

K. Compensated Absences

County employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. In the governmental fund types, the cost of vacation and sick pay is recognized when payments are made to employees. The current and noncurrent liability for accrued vacation and sick leave benefits at June 30, 2004 has been reported in the government-wide statements, representing the County's commitment to fund such costs from future operations. In the proprietary funds, the amount of compensated absences recognized is the amount earned. Such benefits are included in the government-wide statements. The amount due within one year has been estimated based on historic trends.

L. Net Assets/Fund Equity

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statute.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance report tentative management plans that are subject to change.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Retirement Plan

Retirement Plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The County's policy is to fund pension costs as they accrue.

N. Statement of Cash Flows

For purposes of the statement of cash flows, cash and temporary investments with original maturities of three months or less are considered to be cash and cash equivalents.

O. Use of Estimates

Management of the County has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Any differences between these estimates and actual results should immaterially affect the County's reporting of its financial position.

P. Credit Risk

The assessed value of real estate and personal property for the County's ten largest taxpayers comprises 12.02% of the County's tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the County's customer base.

2. DEFICIT NET ASSETS

At June 30, 2004, there were two enterprise funds with deficit net assets. Management intends to transfer funds from the General Fund in fiscal year 2005 to cover the Solid Waste Fund deficit of \$646,627. The Yorktown Revitalization Fund deficit of \$156,341 will be covered by future program revenues.

3. DEPOSITS AND INVESTMENTS

The County maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Cash and Temporary Investments." In addition, the County has restricted cash and investments including cash and investments held with escrow agents.

At June 30, 2004 cash and investments consisted of:

Bank deposits	\$ 8,493,086
Restricted cash and investments	8,270,446
Petty cash	5,055
Investments	<u>71,627,022</u>
Total cash and investments	<u>\$ 88,395,609</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

3. DEPOSITS AND INVESTMENTS, Continued

A. Deposits

At June 30, 2004, the carrying value of deposits with banks and savings institutions was \$8,493,086 and the bank balance was \$8,108,354. The bank balance was covered by Federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of insured limits. Deposits collateralized under the Act are considered to be insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Petty cash totals \$5,055, of which \$600 belongs to the School Board.

The carrying amount and bank balance of deposits for the IDA was \$311,711. The bank balance was covered by the Federal depository insurance.

The carrying amount of the County's restricted cash - escrows was \$7,140,874 at June 30, 2004. This amount reflects \$5,000 of surety deposits for junkyards held in the County's and the junkyards' names; \$403,810 of donations and grants received for specific purposes; \$210,451 for monies held in escrow for debt payments on a capital lease with the Virginia Peninsulas Public Service Authority; \$104,798 for debt payments for the sewer revenue bonds; \$57,117 for monies held in escrow for retainage; and \$6,359,698 for monies held in escrow for capital projects. These amounts are fully collateralized under the Virginia Security for Public Deposits Act.

The carrying amount of the School Board's restricted cash - escrows was \$1,009,535 as of June 30, 2004, which represents monies held in escrow for capital projects. This amount is fully collateralized under the Virginia Security for Public Deposits Act.

The carrying amount of the IDA's restricted cash - escrow was \$120,537 as of June 30, 2004, which represents monies held for the Virginia Department of Transportation for wetlands mitigation. This amount is fully collateralized under the Virginia Security for Public Deposits act.

B. Investments

Statutes authorize the County to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with the portfolio securities valued by the amortized cost method. Investments with a maturity date of one year or less are stated at amortized cost.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

3. DEPOSITS AND INVESTMENTS, Continued

The fair value of the County's position in the LGIP is the same as the value of the pool shares. All other investments are stated at fair value.

The County's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its safekeeping agent in the County's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or its safekeeping agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or by its safekeeping department or agent but not in the County's name. At June 30, 2004 the County's investment balances were as follows:

	CATEGORY			Carrying Amount	Fair Value
	1	2	3		
<u>Pooled:</u>					
Corporate Bonds	\$ 9,634,209	\$ -	\$ -	\$ 9,634,209	\$ 9,634,209
Government Bonds	12,840,854	-	-	12,840,854	12,840,854
Municipal Bonds	7,737,851	-	-	7,737,851	7,737,851
BP Capital Markets PLC Bonds	1,429,078	-	-	1,429,078	1,429,078
	<u>\$ 31,641,992</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,641,992</u>	<u>\$ 31,641,992</u>
<u>Investments not subject to categorization:</u>					
Money Market Funds				11,922,672	11,922,672
Investment in State Treasurer's LGIP				<u>27,870,374</u>	<u>27,870,374</u>
				<u>\$ 71,435,038</u>	<u>\$ 71,435,038</u>

Because the cash and investments of the School Board are included in the County's pool of investments in bonds and LGIP, information such as investment categories cannot be separately presented for these categories. Of the amounts invested in bonds and LGIP, \$4,228,742 belongs to the School Board.

At year-end, the IDA investment balances were as follows:

	CATEGORY			Carrying Amount	Fair Value
	1	2	3		
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Investments not subject to categorization:</u>					
Investment in State Treasurer's LGIP				<u>\$ 191,984</u>	<u>\$ 191,984</u>

At June 30, 2004, the County did not have any investments in overnight repurchase agreements. Due to significantly higher cash flows at certain times during the year, the County invested in overnight repurchase agreements for which the dealer held the underlying securities.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

4. RECEIVABLES

Receivables, net in the Statement of Net Asset are as follows:

The County and the U.S. Army Corps of Engineers (the Corps) entered into an escrow agreement to establish an escrow account of \$110,000 to guarantee the completion and successful operation of a wetlands restoration project. The agreement states that the County has become obligated to the Corps for a wetlands mitigation as the result of the construction by the County of the Tabb Library (the Project) and consequently has the option of accomplishing such mitigation either through the payment to a mitigation bank with available credits in the Project's watershed or through the successful completion of a wetlands restoration project. The Corps has granted preliminary approval for a wetlands restoration project known as the Browns Park Stream Restoration and Wetlands Creation Plan (the Plan). Until the completion of the restoration project, the IDA deposited the funds with an escrow agent to guarantee the completion and successful operation of the Plan. The outstanding balance of the note receivable at June 30, 2004 was \$120,537.

The County agreed to loan the IDA up to \$1,000,000 in connection with the relocation and renovation of the Yorktown Freight Shed Building as part of a multi-million dollar renovation project to the Yorktown waterfront area. In order to realize significant savings for the relocation and renovation of the Yorktown Freight Shed Building, the County is utilizing historic building renovation tax credits, which are available through both federal and Virginia income tax codes. To utilize the tax credits, title to the Freight Shed building was conveyed by the Yorktown Trustees to Yorktown Freight Shed, L.P. (a Virginia limited partnership), created to hold title to the building and to oversee the project with money provided by the County through the IDA. Interest on the outstanding principal balance of the note is due at a rate of 5.5% per annum and the outstanding balance of the note receivable, including accrued interest, at June 30, 2004 was \$644,769.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Depreciation expense was charged to functions of the primary government for governmental activities as follows:

Governmental activities:

General government	\$ 291,846
Judicial services	215,337
Public safety	438,102
Environmental and development services	79,287
Finance and planning	239,031
Education	118,781
Human services	71,330
General services	109,013
Community services	1,312
Internal Service Fund - charged to functions based on usage	<u>449,484</u>
Total depreciation expense - governmental activities	<u>\$ 2,013,523</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

5. CAPITAL ASSETS, Continued

Depreciation expense was charged to functions of the primary government for business-type activities as follows:

Business-type activities:

Sanitary District No. 2	\$ 477,406
Solid waste	176,083
Sewer utility	1,565,062
Yorktown Revitalization	966
York Sanitary District	84,741
Water enterprise	16,251
Water utility	<u>49,251</u>
Total depreciation expense - business-type activities	<u><u>\$ 2,369,760</u></u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

5. CAPITAL ASSETS, Continued

	Restated Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
<u>Industrial Development Authority:</u>				
Capital assets not being depreciated:				
Land	\$ 472,508	\$ -	\$ (306,600)	\$ 165,908
Total capital assets not being depreciated	<u>472,508</u>	<u>-</u>	<u>(306,600)</u>	<u>165,908</u>
Capital assets being depreciated:				
Building held for sale	2,717,048	-	-	2,717,048
Total capital assets being depreciated	<u>2,717,048</u>	<u>-</u>	<u>-</u>	<u>2,717,048</u>
Less accumulated depreciation for:				
Building held for sale	(271,705)	(67,926)	-	(339,631)
Total accumulated depreciation	<u>(271,705)</u>	<u>(67,926)</u>	<u>-</u>	<u>(339,631)</u>
Total capital assets being depreciated, net	<u>2,445,343</u>	<u>(67,926)</u>	<u>-</u>	<u>2,377,417</u>
Industrial Development Authority capital assets, net	<u>\$ 2,917,851</u>	<u>\$ (67,926)</u>	<u>\$ (306,600)</u>	<u>\$ 2,543,325</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

5. CAPITAL ASSETS, Continued

Construction Commitments:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Communication system - 800 mhz	\$ 5,975,989	\$ 3,045,117
Skimino Hills sewer	-	2,342,874
New E911 Center - Construction	562,236	1,066,002
Back Creek Road sewer	238,252	798,807
Computer Aided Dispatch system	-	718,735
Yorktown utility undergrounding	120,819	331,383
Route 171 streetscape improvements	-	93,726
Fire and Life Safety equipment	-	65,205
Read Street sewer rehab	252,183	54,220
New Quarter Park playgrounds	-	53,390
Lodge Road pump station	910,383	45,980
Barcroft pump station	-	44,295
Children's Services modular unit	-	42,375
New E911 Center - A&E fees	181,906	40,782
Edgehill stormwater	88,438	40,662
	<u>\$ 8,330,206</u>	<u>\$ 8,783,553</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt during the year ended June 30, 2004:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
General obligation bonds	\$ 43,740,000	\$ 3,875,000	\$ (2,830,000)	\$ 44,785,000	\$ 3,130,000
Literary loans	1,190,000	-	(160,000)	1,030,000	160,000
Capital leases	276,247	-	(100,776)	175,471	106,282
Lease revenue bonds	3,070,000	17,380,000	(655,000)	19,795,000	1,015,000
Note payable	2,928,191	-	(180,408)	2,747,783	193,986
Compensated absences	2,891,462	431,640	(243,237)	3,079,865	110,700
Total Governmental Activities	<u>\$ 54,095,900</u>	<u>\$ 21,686,640</u>	<u>\$ (4,169,421)</u>	<u>\$ 71,613,119</u>	<u>\$ 4,715,968</u>
<u>Business-type Activities:</u>					
Revenue bonds	\$ 9,484,287	\$ -	\$ (173,566)	\$ 9,310,721	\$ 183,999
Capital leases	1,490,000	-	(140,000)	1,350,000	145,000
Closure costs	254,843	-	(66,527)	188,316	60,000
Compensated absences	226,249	44,009	(20,929)	249,329	3,200
Total Business-type Activities	<u>\$ 11,455,379</u>	<u>\$ 44,009</u>	<u>\$ (401,022)</u>	<u>\$ 11,098,366</u>	<u>\$ 392,199</u>
<u>Discretely Presented</u>					
<u>Component Units-</u>					
<u>School Board:</u>					
Capital leases	\$ 412,250	\$ -	\$ (97,000)	\$ 315,250	\$ 97,000
Compensated absences	1,457,744	856,580	(764,125)	1,550,199	1,550,199
Workers' compensation claims	1,586,692	662,778	(269,660)	1,979,810	550,000
Incurred but not reported					
health claims	1,703,851	10,184,822	(8,609,429)	3,279,244	3,279,244
Total School Board	<u>\$ 5,160,537</u>	<u>\$ 11,704,180</u>	<u>\$ (9,740,214)</u>	<u>\$ 7,124,503</u>	<u>\$ 5,476,443</u>
<u>Industrial Development Authority:</u>					
Note payable	\$ 2,907,477	\$ 199,139	\$ (78,000)	\$ 3,028,616	\$ 81,878
Total Industrial					
Development Authority	<u>\$ 2,907,477</u>	<u>\$ 199,139</u>	<u>\$ (78,000)</u>	<u>\$ 3,028,616</u>	<u>\$ 81,878</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

6. LONG-TERM DEBT, Continued

A. General Obligation Bonds

General obligations bonds (GOB) are backed by the full faith and credit of the County. There are no sinking fund requirements. In 2004, the primary government issued \$3,875,000 of general obligation bonds to provide resources for major renovations to Queens Lake Middle School. Outstanding general obligation bonds at June 30, 2004 of the primary government governmental activities are as follows:

GOB Series	Purpose	Bond Date	Maturity Date	Interest Rate	Balance June 30, 2004
Series 93	Renovate, construct fire stations, apparatus	10/01/93	07/01/07	2.15-4.70%	\$ 590,000
VPSA 94A	Coventry, Magruder, Grafton Bethel schools	12/15/93	12/15/09	7.17-7.44%	2,265,000
VPSA 93C	School complex, Tabb, Yorktown Elementary	11/18/93	12/15/13	4.48-5.00%	1,285,000
VPSA 94	Grafton High/Middle complex	07/01/94	07/15/05	5.60%	2,325,000
VPSA 97I	Various school projects	11/20/97	07/15/17	4.35-5.35%	12,055,000
Series 01	Refinance 1994 issue for school construction	11/01/01	07/15/14	3.00-5.00%	14,925,000
VPSA 02B	Bruton High	11/07/02	07/15/22	2.35-5.10%	7,465,000
VPSA 03	Queens Lake	11/06/03	07/15/23	3.10-5.35%	3,875,000
					<u>\$ 44,785,000</u>

The following is a summary of the repayment schedules for fiscal years:

Year	Governmental Activities	
	Principal	Interest
2005	\$ 3,130,000	\$ 2,251,888
2006	3,105,000	2,046,363
2007	3,115,000	1,880,775
2008	3,215,000	1,715,222
2009	3,075,000	1,550,520
2010 - 2014	15,945,000	5,405,384
2015 - 2019	9,660,000	1,825,814
2020 - 2024	3,540,000	396,322
	<u>\$ 44,785,000</u>	<u>\$ 17,072,288</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

6. LONG-TERM DEBT, Continued

B. Literary Loans

Literary fund loans consist of loans from the State Literary Loan Fund for the construction and improvement of various schools. Outstanding literary loans at June 30, 2004 of the primary government governmental activities are as follows:

<u>Project/Purpose</u>	<u>Loan Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance June 30, 2004</u>
New Horizon	09/01/86	09/01/06	4.00%	\$ 30,000
Mount Vernon	04/01/88	04/01/08	3.00%	200,000
Magruder Elementary	07/15/91	07/15/11	4.00%	800,000
				<u>\$ 1,030,000</u>

The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 160,000	\$ 39,200
2006	160,000	33,300
2007	160,000	27,400
2008	150,000	21,500
2009	100,000	16,000
2010 - 2014	300,000	24,000
	<u>\$ 1,030,000</u>	<u>\$ 161,400</u>

C. Compensated Absences

For governmental activities, compensated absences are typically liquidated by the general fund.

D. Lease Revenue Bonds

Principal payments will be made in annual installments and interest payments will be made in semi-annual installments. In 2004, the primary government issued \$17,380,000 lease revenue bonds to provide resources for the new 800 mhz communication system, public safety equipment and a parking terrace for the waterfront area. Outstanding lease revenue bonds at June 30, 2004 of the primary government governmental activities are as follows

<u>Series</u>	<u>Purpose</u>	<u>Bond Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance June 30, 2004</u>
2001	Refinance COPS Series 1990 and 1992	11/01/01	03/01/12	3.00-4.13%	\$ 2,750,000
2003	800 mhz system, equipment, parking garage	12/01/03	06/15/23	2.00-4.50%	17,045,000
					<u>\$ 19,795,000</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

6. LONG-TERM DEBT, Continued

The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,015,000	\$ 716,804
2006	1,040,000	693,154
2007	1,060,000	667,979
2008	1,085,000	641,454
2009	1,110,000	610,849
2010 - 2014	5,000,000	2,505,451
2015 - 2019	4,835,000	1,638,852
2020 - 2024	4,650,000	531,650
	<u>\$ 19,795,000</u>	<u>\$ 8,006,193</u>

E. Note Payable

Note payable is a taxable-refunding note used to refinance the Virginia Retirement System (VRS) obligation incurred by the School Board in a one-time early retirement incentive program offered by VRS during the fiscal year 1992. Payments will be made in semi-annual installments plus interest calculated at 7.39% per annum. The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 193,986	\$ 199,542
2006	208,586	184,942
2007	224,286	169,243
2008	241,167	152,362
2009	259,318	134,210
2010 - 2014	1,620,440	347,197
	<u>\$ 2,747,783</u>	<u>\$ 1,187,496</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

6. LONG-TERM DEBT, Continued

F. Revenue Bonds

The County anticipates that the amounts required for the payment of interest and principal on the bonds will be provided by the respective enterprise funds revenues.

Revenue bonds at June 30, 2004 of the primary government business-type activities are as follows:

<u>Bond Series</u>	<u>Purpose</u>	<u>Bond Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance June 30, 2004</u>
Series 92	Lackey sewer system	05/14/92	05/14/32	5.00%	\$ 530,721
Series 99	Sewer systems	12/01/99	07/01/29	4.75-5.88%	8,780,000
					<u>\$ 9,310,721</u>

The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 183,999	\$ 522,696
2006	194,455	513,490
2007	204,933	503,762
2008	210,436	493,509
2009	220,965	482,980
2010 - 2014	1,298,732	2,232,102
2015 - 2019	1,691,583	1,841,164
2020 - 2024	2,234,431	1,296,453
2025 - 2029	2,973,682	563,081
2030 - 2034	97,505	8,703
	<u>\$ 9,310,721</u>	<u>\$ 8,457,940</u>

G. Virginia Peninsula Regional Jail Authority Liabilities

In June 2003, the Virginia Peninsula Regional Jail Authority (Jail Authority), of which the County is a member jurisdiction as discussed in Note 1, issued \$21,655,000 of Regional Jail Facility Refunding Revenue Bonds, Series 2003. The original bonds were issued for the purpose of acquiring, constructing and equipping a Regional Jail Facility to serve its member jurisdictions. The bonds bear interest at 2% to 5%, which will be paid semi-annually. The bonds mature in amounts ranging from \$570,000 on October 1, 2003 to \$2,765,000 on October 1, 2018. The outstanding balance at June 30, 2004 is \$21,085,000.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

6. LONG-TERM DEBT, Continued

The bonds are limited obligations of the Jail Authority, and do not constitute a general obligation debt or pledge of the faith and credit of any member jurisdiction, nor do they obligate any member jurisdiction to levy or pledge any form of taxation therefore. However, the County has entered into a non-binding moral obligation pledge of the member jurisdictions in which the member jurisdictions have agreed to pay their proportionate share of the debt service on the bonds and any debt service funding requirements if the Jail Authority lacks sufficient funds to do so. The County's proportionate share is 34%.

H. Industrial Development Authority Liabilities

In 1999, the IDA received a loan commitment of \$2,820,000 from Bank of America (formerly NationsBank) for a loan to pay off the outstanding balance of \$1,800,000 on the 1996 shell building loan and to finance the costs of certain construction and build-out improvements under the terms of a lease agreement for the shell building. In April 1999, the IDA began making monthly payments of interest only at 6.15%. Monthly principal and interest payments began August 1, 1999. The loan is backed by the moral obligation of the County of York, and secured by a credit line deed of trust on the property. Subsequent to year-end, a modification agreement was signed reducing the interest rate to 4.71% and monthly payments to \$16,374. The outstanding balance at June 30, 2004 was \$2,431,953.

On December 19, 2001, the County agreed to loan the IDA up to \$1,000,000 in connection with the relocation and renovation of the Yorktown Freight Shed Building as part of a multi-million dollar renovation project to the Yorktown waterfront area. In order to realize significant savings on the cost of the relocation and renovation of the Yorktown Freight Shed Building, the County is utilizing historic building renovation tax credits, which are available through both federal and Virginia income tax codes. In order to be able to utilize the tax credits, title to the Freight Shed building was conveyed by the Yorktown Trustees to Yorktown Freight Shed, L.P. (a Virginia limited partnership), which has been created to hold title to the building and to oversee the project with money provided by the County through the IDA.

Interest on the outstanding principal balance of the note is due at a rate of 5.5% per annum. The outstanding balance of the note payable at June 30, 2004 was \$596,663. The following is a summary of the repayment schedules for fiscal years:

<u>Year</u>		<u>Principal</u>		<u>Interest</u>
2005	\$	81,878	\$	114,615
2006		85,877		110,617
2007		90,068		106,426
2008		94,185		102,309
2009		97,062		97,430
2010 - 2014		2,579,546		381,011
	\$	<u>3,028,616</u>	\$	<u>912,408</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

7. INTERFUND AND COMPONENT UNIT TRANSACTIONS

The composition of interfund balances as of June 30, 2004 is as follows:

Due to/from Other Funds

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Nonmajor governmental	Meals tax	\$ 37,449
	Nonmajor governmental	Lodging tax	393,192
	Sewer utility	Meals tax/ Hurricane	165,121
Total Due to other funds			<u>\$ 595,762</u>
Debt Service - Fire & Rescue	General	Interest	\$ 128,997
Debt Service - Fire & Rescue	Capital Project - County Capital	Debt proceeds	6,235,493
Total Due to other funds			<u>\$ 6,364,490</u>
Capital Project - County Capital	General	Communication project	\$ 960
Nonmajor governmental	General	Cash needs	\$ 42,542
Nonmajor governmental	General	Audit cost	500
Total Due to other funds			<u>\$ 43,042</u>
Solid Waste	General	Cash needs	\$ 69,767
Yorktown Revitalization	General	Land purchase	\$ 3,233,229
Internal Service	General	Factory parts	\$ 355

Due to/from Primary Government:

<u>Due from Entity</u>	<u>Due to Entity</u>	<u>Purpose</u>	<u>Amount</u>
School Board	County of York	Reversion	\$ 336,381
School Board	County of York	Fleet service	1,357
Total Due to Primary Government			<u>\$ 337,738</u>
County of York	School Board	School support	<u>\$ 11,575,207</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

7. INTERFUND AND COMPONENT UNIT TRANSACTIONS, Continued

Interfund Transfers:

<u>Fund</u>	<u>Transfers Out Fund</u>	<u>Transfers In Fund</u>
General	\$ (15,431,664)	\$ -
Debt Service - Fire & Rescue	(17,000,000)	843,909
Capital Project - County Capital	(1,050,000)	16,023,734
Nonmajor governmental	(3,571,355)	17,284,054
Solid Waste	-	1,000,000
Sewer Utility	(14,240)	996,698
Yorktown Revitalization	-	392,000
Nonmajor Enterprise	-	438,973
Internal Service	-	87,891
Total	<u>\$ (37,067,259)</u>	<u>\$ 37,067,259</u>

All transfers made during the year were routine and consistent with the activities of the funds making the transfers.

Significant Transactions between Primary Government and Component Units:

<u>Purpose</u>	<u>Amount</u>
Payments from County to School Board:	
School operations	\$ (31,439,000)
Impact Aid, school technology, State electronic classroom	(823,918)
Hurricane Isabel	(23,641)
Payments to County from School Board:	
Year-end reversion entry	<u>726,128</u>
Total General Fund	<u>\$ (31,560,431)</u>
Payments from County to School Board:	
Debt service - Education Fund, debt proceeds	<u>\$ (4,103,544)</u>
Capital Project Fund - County Capital, school construction	<u>\$ (145,000)</u>
Statement of Activities - Payment from County of York	<u>\$ (35,808,975)</u>
Payment from County to Industrial Development Authority:	
General fund - Economic development	<u>\$ (4,324,932)</u>
Yorktown Revitalization Fund - Economic development	<u>\$ (150,000)</u>
	<u>\$ (4,474,932)</u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

8. LEASES

The County leases certain equipment and various office spaces under noncancellable operating lease agreements. A summary of future minimum rental payments under these noncancellable operating leases as of June 30, 2004 is as follows:

<u>Year</u>	<u>Primary Government</u>	<u>Discretely Presented Component Unit - School Board</u>
2005	\$ 94,579	\$ 203,764
2006	70,742	4,600
2007	10,209	-
2008	2,166	-
Total minimum lease payments	<u>\$ 177,696</u>	<u>\$ 208,364</u>

Rental expenditures for the year ended June 30, 2004 for all operating leases were \$109,629 and \$228,909 for the County and Discretely Presented Component Unit - School Board, respectively.

The County leases the usage of its communications tower under operating lease agreements. The tower is a capital asset listed as a land improvement with a cost of and accumulated depreciation of \$19,200, for a carrying amount of \$0 at June 30, 2004.

A summary of the future minimum rental receipts under noncancellable operating leases as of June 30, 2004 is as follows:

<u>Year</u>	<u>Primary Government</u>	<u>Discretely Presented Component Unit - School Board</u>
2005	\$ 249,897	\$ 117,636
2006	215,555	117,636
2007	213,979	117,636
2008	214,159	109,056
2009	214,159	40,000
2010 - 2014	1,013,135	40,000
2015 - 2019	772,859	-
2020 - 2024	575,748	-
2025 - 2029	50	-
2030 - 2034	50	-
Total minimum lease payments	<u>\$ 3,469,591</u>	<u>\$ 541,964</u>

Rental revenue receipts for all operating leases were \$360,060 for the County and \$117,053 for the School Board for the year ended June 30, 2004.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

8. LEASES, Continued

The County leases certain equipment and a building under capital lease agreements. A summary of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2004 is as follows:

The gross value of capital assets under capital lease agreements is as follows: Governmental Activities - \$606,360 (equipment) and Business-type Activities - \$1,183,701 (buildings).

9. DEFINED BENEFIT PENSION PLANS

A. Plan Descriptions

The County has three defined benefit pension plans. In the first plan (the "County" plan), the County contributes to the Virginia Retirement System (VRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. The County payroll for employees covered by the VRS for the year ended June 30, 2004 was \$25,742,733 out of the total payroll of \$29,317,875.

In the second plan (the "School Board" plan), professional employees of the School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool. The payroll for professional employees covered by VRS for the year ended June 30, 2004 was \$47,059,100; the total payroll was \$47,564,584. As of June 30, 1992, non-professional employees of the School Board are also covered by the VRS. Non-professional employees participate as a separate group in the agent multiple-employer retirement system. The payroll for non-professional employees covered by VRS for the year ended June 30, 2004 was \$6,105,556 out of the total payroll of \$7,564,458.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

9. DEFINED BENEFIT PENSION PLANS, Continued

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters and sheriffs) and at age 50 with 30 years of service for participating employers (age 50 with 25 years for participating local law enforcement officers, firefighters and sheriffs) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2003AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

In the third plan (the "optional" plan), non-professional employees of the School Board who were not previously covered by VRS are provided pension benefits through a single employer defined benefit pension plan administered by a fiduciary agent of the School Board. The optional plan provides retirement benefits as well as death and disability benefits. As of June 30, 1992, the optional plan was frozen and the non-professional employees who participated in the plan became fully vested. The non-professional employees now participate in the VRS as noted above.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the County and by the School Board. In addition, the County and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County's contribution rate for fiscal years ended 2004, 2003, and 2002, was 6.13%, 6.13%, and 7.5%, respectively, of annual covered payroll.

The School Board's contribution rate for non-professional employees for fiscal years ended 2004, 2003, and 2002 was 10%, 10%, and 10%, respectively, of annual covered payroll. The School Board's required contribution for the professional employees for fiscal years ended 2004, 2003, and 2002, was \$4,439,787, \$3,969,426, and \$3,634,937, respectively, and was fully funded for each fiscal year.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

9. DEFINED BENEFIT PENSION PLANS, Continued

C. Annual Pension Cost

The County's annual pension costs of \$1,578,030, \$1,490,994, and \$1,704,260, for 2004, 2003, and 2002, respectively, were equal to the required and actual contributions. The School Board's annual pension costs for the non-professional employees of \$614,300, \$599,222 and \$551,058 for 2004, 2003, and 2002, respectively, were equal to the required and actual contributions. The School Board's annual pension costs for the professional employees of \$4,439,801, \$3,969,426 and \$3,634,937 for 2004, 2003, and 2002, respectively, were equal to the required and actual contributions. The School Board's annual required contributions for the optional plan were \$87,912, \$82,264 and \$79,598, and actual contributions were \$100,000, \$300,000 and \$157,000 for 2004, 2003, and 2002, respectively.

The required contribution for VRS was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4% - 7% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the County's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's funding excess is being amortized as a level percentage of payroll on an open basis within a period of thirty years or less.

The actuarial accrued liability for the optional plan was determined as part of an actuarial valuation on June 30, 2003 using the projected unit credit actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7% per year compounded annually, (b) post-retirement benefit increases of 2% per year, and (c) percentage of current retiree benefits to be paid of 100%.

10. COMMITMENTS AND CONTINGENT LIABILITIES

A. Post-Closure Landfill Costs

State and federal laws and regulations require that the County perform post-closure care requirements on its landfill. The landfill was closed on October 9, 1993. Post-closure costs at June 30, 2004 of \$188,316 are expected to be incurred over the next four years. An annual evaluation is performed to determine future costs and actual costs may differ due to inflation, deflation, changes in technology or changes in regulations. Funding of these costs will be from current operating revenues.

Post-closure costs are included in liabilities of the Solid Waste Fund as follows:

Construction of methane gas collection system	\$ 2,940
Landfill monitoring and maintenance	<u>185,376</u>
	188,316
Less current portion	<u>(60,000)</u>
	<u><u>\$ 128,316</u></u>

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

10. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

B. Risk Management

The County and the School Board are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County reports all of its risk management activities in its General Fund and pays all claims for retained risks from General Fund resources. The School Board reports all of its risk management activities in its Operating Fund and pays all claims for retained risks from Operating Fund resources. The County and the School Board maintain comprehensive property and casualty policies, commercial general liability policies, comprehensive liability vehicle fleet policies and coverages for errors and omissions, and employer's liability and certain other risks with commercial insurance companies. The General and School Operating Funds retain the full risk for unemployment compensation; up to \$60,000 for each health care claim; and up to \$200,000 for each workers' compensation occurrence subject to a \$600,000 annual aggregate on the combined claims. All unemployment, health care claims and workers' compensation claims are paid through a third-party administrator through resources from the General and School Operating Funds. For all retained risks, claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past five fiscal years.

The County health care liability at June 30 is included in salaries, taxes and benefits payable balance of the County operating funds. The County had available \$818,040 for health care claims and \$1,578,862 for workers' compensation claims at June 30, 2004, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

Changes in the reported amounts since June 30, 2002 resulted from the following:

	<u>2004</u>	<u>2003</u>
Accrued liability/designated fund balance - beginning of year	\$ 2,014,108	\$ 1,834,251
Claims and changes in estimates	4,586,073	4,139,093
Claims payment	<u>(4,203,279)</u>	<u>(3,959,236)</u>
Accrued liability/designated fund balance - end of year	<u>\$ 2,396,902</u>	<u>\$ 2,014,108</u>

The School Board health care claim liability at June 30 is included in salaries, taxes, and benefits payable balance of the Schools Operating Fund.

The Schools had available \$3,279,244 for health care claims and \$1,979,810 for workers' compensation claims at June 30, 2004, which is considered sufficient to cover pending claims and incurred but not reported claims that may arise.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

10. COMMITMENTS AND CONTINGENT LIABILITIES, Continued

Changes in the reported amounts since June 30, 2002 resulted from the following:

	<u>2004</u>	<u>2003</u>
Accrued liability/designated fund balance - beginning of year	\$ 3,290,543	\$ 2,345,486
Claims and changes in estimates	10,847,600	6,515,638
Claims payment	<u>(8,879,089)</u>	<u>(5,570,581)</u>
Accrued liability/designated fund balance - end of year	<u>\$ 5,259,054</u>	<u>\$ 3,290,543</u>

11. SURETY BONDS

The County of York maintains the following surety bonds at June 30, 2004:

	<u>Amount</u>
<u>Fidelity and Deposit Company of Maryland - Surety:</u>	
Treasurer and/or Director of Financial and Management Services	\$ 750,000
Clerk of the Circuit Court	1,275,000
Sheriff	30,000
Commissioner of the Revenue	3,000
<u>Virginia Municipal Liability Pool - Surety:</u>	
All County employees	\$ 1,000,000

In addition, the Discretely Presented Component Unit - School Board maintains the following surety bond at June 30, 2004:

<u>Virginia Municipal Liability Pool - Surety:</u>	
All School Board employees	\$ 1,000,000

12. POST- RETIREMENT BENEFITS

Employees retiring after January 1, 2002 and having twenty or more years of service with the County and receiving a VRS annuity will qualify for a health insurance premium contribution from the County. The twenty years need not be consecutive. The retiree's Virginia Retirement System (VRS) annuity may be either a full or reduced benefit. The amount of the County's contribution shall be equal to 50% of the retiree's total monthly health insurance premium subject to the following provisions. The County's 50% contribution will be reduced by the amount of any health insurance credit that the retiree may qualify for under the VRS program. Retiring employees who have fifteen years of service with the VRS will qualify for the VRS Retiree Health Insurance Credit Program. At June 30, 2004, 6 retirees were participating in this program. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$15,979 were recognized as incurred for post-retirement health care.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

12. POST- RETIREMENT BENEFITS, Continued

The School Board provides post-retirement health care benefits, in accordance with School Board policy, to all employees who retire from York County Public Schools with 100 days of accumulated sick leave, 10 years of service and a minimum of 24 months participation in the health insurance program immediately prior to retirement. At June 30, 2004, 35 retirees were participating in this program. The School Board pays a monthly contribution of \$25 toward the health care program premium for a total period of time not to exceed 10 years or until retiree is eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as incurred. During the year, expenditures of \$53,430 were recognized as incurred for post-retirement health care.

13. DEFERRED COMPENSATION PLAN

The County, including its component unit - IDA, offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the participants. Investments are managed by the plan's trustee under one or a combination of 32 investment options. The participants make the choice of the investment options.

The County also offers its employees a retirement health savings plan, which is available to all full-time, regular County employees who have worked in that capacity for at least one full year. Participation in the plan is optional. Employees may be reimbursed for qualified medical expenses, in accordance with Internal Revenue Service Publication 502, for themselves, spouse, and dependents upon separation or retirement from the County. Investments are managed by the plan's trustee under one or a combination of 10 investment options.

The School Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to all School employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until separation from service, retirement, death, disability, financial hardship and/or reaching age 59½. The School Board offers a selection of investment options to participants. All earnings on the invested funds compound tax-free until withdrawn from the account.

14. DEFERRED REVENUE

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

COUNTY OF YORK, VIRGINIA
Notes to Basic Financial Statements, Continued
June 30, 2004

14. DEFERRED REVENUE, Continued

At June 30, 2004, deferred revenue totaled \$4,285,014. Of this amount, \$2,831,512 represents uncollected tax billings not available for funding of current expenditures; \$536,031 represents the receipt of payments of a tax assessment due on December 5, 2004, but not yet billed; \$120,537 represents a note receivable for a wetlands mitigation plan; \$60,438 represents the advance payment from the City of Poquoson for shared court services; \$16,667 represents tower rentals paid in advance; \$300 represents a lease payment paid in advance; \$644,769 represents a note receivable from the IDA; and \$74,760 represents the advance payment of shared expenses for a sewer construction project.

15. RESTATEMENT OF BEGINNING NET ASSETS

In fiscal year 2004, the Law Library is presented as a special revenue fund. Historically, this fund had been shown as an agency fund. Also, in fiscal year 2004, as a result of a debt issuance, it was determined that certain assets previously thought to be owned by the Industrial Development Authority would now be owned by the County. As a result, the fund balance of the Yorktown Capital Improvement Fund was restated to reflect this change. The following table shows the fund balances, as restated for the changes enumerated above.

	<u>Law Library</u>	<u>Yorktown Capital Improvements</u>
Fund balance, June 30, 2003	\$ -	\$ 889,397
Adjustment	8,678	(509,388)
Fund balance, June 30, 2003 - restated	<u>\$ 8,678</u>	<u>\$ 380,009</u>

16. EXTRAORDINARY ITEM

On September 18, 2003, Hurricane Isabel passed through the County causing extensive property damage from falling trees, debris and storm surge. As a result, funds that were materially impacted reflect an extraordinary item in the financial statements for the year ended June 30, 2004. The following is a summary of the revenues and expenditures/expenses that represent the net loss from Hurricane Isabel.

	<u>General</u>	<u>Solid Waste</u>	<u>Sewer Utility</u>
Revenue:			
Federal	\$ 585,736	\$ 6,209,021	\$ 171,658
State	114,771	1,406,811	38,909
Insurance recovery	134,054	-	73,015
Total revenue	<u>834,561</u>	<u>7,615,832</u>	<u>283,582</u>
Expenditures/Expenses	<u>(1,509,263)</u>	<u>(8,424,621)</u>	<u>(208,013)</u>
Extraordinary item, net	<u>\$ (674,702)</u>	<u>\$ (808,789)</u>	<u>\$ 75,569</u>